

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Component Unit of Luce County

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Linas District Health Department	County Luce
Audit Date 09-30-04	Opinion Date 12-17-04	Date Accountant Report Submitted to State: March 25, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).		X (included in Luce County GPS)	

Certified Public Accountant (Firm Name) Anderson, Jackman & Co., P.C.			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature Anderson Jackman & Co P.C.			

LUCE-MACKINAC-ALGER-SCHOOLCRAFT DISTRICT HEALTH DEPARTMENT

BASIC FINANCIAL STATEMENTS

September 30, 2004

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Luce-Mackinac-Alger-Schoolcraft
District Health Department
Board of Health
Newberry, Michigan 49868

We have audited the accompanying financial statements of the governmental activities and major fund of the Luce-Mackinac-Alger-Schoolcraft District Health Department, a component unit of Luce County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the LMAS District Health Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LMAS District Health Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Luce-Mackinac-Alger-Schoolcraft District Health Department as of September 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of Luce-Mackinac-Alger-Schoolcraft District Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LMAS District Health Department's basic financial statements. The financial statements and schedules listed in the Table of Contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of Luce-Mackinac-Alger-Schoolcraft District Health Department. The financial statements and schedules have been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2004

Management's Discussion and Analysis

This section of the LMAS District Health Department's annual financial report presents our discussion and analysis of the LMAS District Health Department's financial performance during the fiscal year ended September 30, 2004. Please read it in conjunction with the LMAS District Health Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The LMAS District Health Department saw many shifts in funding priorities during fiscal 2004, but was able to weather them without significant problem. The Federal Office of Homeland Security provided expanded funding through the State of Michigan for a significant new program, Public Health Emergency Preparedness. This program supports enhancement of the public health system infrastructure and the design of an emergency response plan to use in the event of a public health emergency. Funding for this program will further expand in fiscal 2004.

Two MDCH programs were de-funded State-wide after the first quarter of the year. The LMAS District Health Department continues to support one of these on a limited basis, Community Health Assessment, to continue our involvement in several County community projects and studies.

Budget concerns at the federal and state levels resulted in some decreased funding for ongoing programs. The most significant of these, from a dollar perspective, was the loss of the rural health add-on for Medicare home health services. This program had paid an additional premium amount for services rendered in rural areas.

The LMAS District Health Department received accreditation status from the State of Michigan for the first accreditation cycle and accreditation with commendation for the second cycle in fiscal 2004.

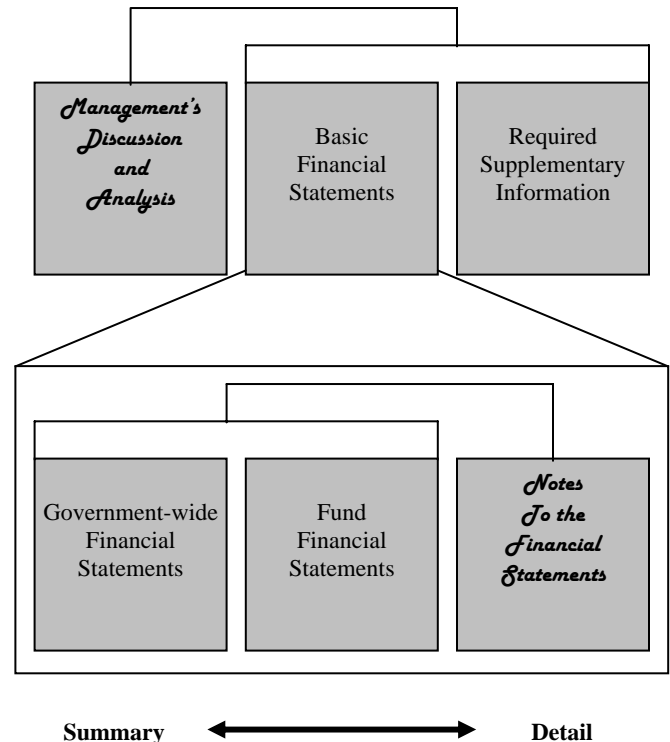
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the LMAS District Health Department.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

**Figure A-1
Required Components of the
Health Department's Annual Financial Report**

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Health Department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Health Department's operations, reporting the Health Department's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how government services like Health and Welfare were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with individual statements that provide details about our individual divisions of the LMAS District Health Department each of which are added together and presented in single columns in the basic financial statements. Figure A-2 summarizes the major features of the LMAS District Health Department's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 Major Features of Health Department's Government-wide and Fund Financial Statements		
	<u>Government-wide Statements</u>	<u>Fund Statements</u> <u>Governmental Funds</u>
Scope	Entire Health Department government (except fiduciary funds)	The activities of the Health Department that are not proprietary or fiduciary, such as Health and Welfare.
Required financial	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

The government-wide statements report information about the LMAS District Health Department as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The two government-wide statements report the LMAS District Health Department's net assets and how they have changed. Net assets – the difference between the LMAS District Health Department's assets and liabilities – is one way to measure the LMAS District Health Department's financial health, or position.

- Over time, increases or decreases in the LMAS District Health Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the LMAS District Health Department you need to consider additional nonfinancial factors such as changes in the federal and state funding and the condition of the economy.

The government-wide financial statements of the LMAS District Health Department are:

- Governmental activities – Most of the LMAS District Health Department's basic services are included here, such as Public Health, Home Health, and Environmental Health programs.

Fund Financial Statements

The fund financial statements provide more detailed information about the LMAS District Health Department's most significant funds-not the LMAS District Health Department as a whole. Funds are accounting devices that the LMAS District Health Department uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Luce-Mackinac-Alger-Schoolcraft District Health Department Board establishes other funds to control and manage money for particular purposes.
- Governmental funds – All of the LMAS District Health Department's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the LMAS District Health Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis
September 30, 2004

FINANCIAL ANALYSIS OF THE LMAS DISTRICT HEALTH DEPARTMENT AS A WHOLE

The Health Department implemented GASB 34 accounting procedures for the period beginning October 2003; therefore a comparative analysis cannot be performed this year. A comparative analysis will be performed beginning next year.

Table A-1
Health Department's Net Assets

	Governmental Activities 2004
Current and other assets	\$ 2,245,590
Capital assets	<u>138,028</u>
Total assets	<u>\$ 2,383,618</u>
Current liabilities	509,450
Long-term debt outstanding	<u>227,637</u>
Total liabilities	<u>737,087</u>
Net assets	
Invested in capital asset, net of related debt	125,834
Unrestricted	<u>1,520,697</u>
Total net assets	<u>\$ 1,646,531</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis September 30, 2004

Table A-2 and the narrative that follows consider the operations of governmental-type activities.

Governmental Activities

Table A-2
Changes in Health Department's Net Assets

	Governmental Activities <u>2004</u>
Program Revenue	
Fees and Collections	4,272,504
Federal/State Funding Non MDCH	554,307
State Funding – MDCH CPBC	632,886
State Funding – MDCH Non CPBC	239,536
Local Public Health Operations	332,572
Local Funds	105,626
Miscellaneous Revenues	<u>156,575</u>
Total Program Revenues	<u>6,294,006</u>
Program Expenses	
Health and Welfare	<u>5,799,902</u>
Total Program Expenses	<u>5,799,902</u>
Net Program Revenues	<u>494,104</u>
General Revenue	
County Appropriations	<u>48,347</u>
Increase (decrease) in net assets	<u>\$ 542,451</u>

FINANCIAL ANALYSIS OF THE LMAS DISTRICT HEALTH DEPARTMENT'S FUNDS

As the LMAS District Health Department completed the year, its governmental funds reported a fund balance of \$1.6 million, a 50% increase in fund balance. The primary reasons for the increase in fund balance is highlighted in the financial analysis of the LMAS District Health Department.

Governmental Fund Revenues and Expenditures

Operating revenues for the LMAS District Health Department increased by 6% and operating expenditures for the LMAS District Health Department's governmental funds increased 2%.

Table A-3
Changes in Health Department's Fund Balance

	Governmental General Operating Fund <u>2004</u>
Revenues:	
Fees and Collections	3,892,336
Federal/State Funding Non MDCH	554,307
State Funding – MDCH CPBC	632,886
State Funding – MDCH Non CPBC	239,536
Local Public Health Operations	332,572
Local Funds	105,626
Miscellaneous Revenues	<u>156,575</u>
Total Program Revenues	<u>5,913,838</u>
Program Expenses	
Health and Welfare	<u>5,767,715</u>
Total Program Expenses	<u>5,767,715</u>
Excess of Revenues Over (Under) Expenditures	146,123
County Appropriations	<u>48,347</u>
Excess Revenues and Other Financial Sources Over Expenditures	<u>\$ 194,470</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

Management's Discussion and Analysis
September 30, 2004

CAPITAL ASSETS

At the end of 2004, the LMAS District Health Department had invested \$138 thousand in capital assets, including furniture, equipment, and building improvements. (See Table A-4.)

Table A-4
Health Department's Capital Assets
(*net of depreciation*)

	Governmental Activities 2004
Equipment and furniture	\$ 43,846
Building improvements	94,182
Totals	<u>\$ 138,028</u>

More detailed information about the LMAS District Health Department's capital assets is presented in Note E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In adopting the general fund budget for fiscal year 2005, the LMAS District Health Department considered the budgetary problems within the State of Michigan and their likely effects on grant funding, revenue sharing to the County and Medicaid payment rates. Planned decreases in Medicare payments for Home Health services were also considered.

CONTACTING THE LMAS DISTRICT HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, regulators and creditors with a general overview of the LMAS District Health Department's finances and to demonstrate the LMAS District Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Luce-Mackinac-Alger-Schoolcraft District Health Department in Newberry, MI 49868.

Basic Financial Statements

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Net Assets September 30, 2004

	Governmental Activities
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	
Unrestricted	\$ 933,215
Accounts Receivable (net)	732,680
Due From Other Governments	528,253
Prepaid Expenses	51,442
	<hr/>
Total Current Assets	2,245,590
	<hr/>
Non-Current Assets:	
Capital Assets, net of accumulated depreciation	138,028
	<hr/>
Total Non-current Assets	138,028
	<hr/>
Total Assets	\$ 2,383,618
	<hr/>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 192,505
Accrued Payroll and Related Liabilities	208,728
ACH Payables	62,822
Other Liabilities	31,897
Deferred Revenue	6,345
Capital Leases (Note I)	7,153
	<hr/>
Total Current Liabilities	509,450
	<hr/>
Non-current Liabilities:	
Compensated Absences	222,596
Capital Leases (Note I)	5,041
	<hr/>
Total Non-Current Liabilities	227,637
	<hr/>
Total Liabilities	737,087
	<hr/>
NET ASSETS:	
Invested in Capital Assets, net of related debt	125,834
Unrestricted	1,520,697
	<hr/>
Total Net Assets	1,646,531
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Total Liabilities and Net Assets	\$ 2,383,618
	<hr/>

The notes to financial statements are an integral part of this statement.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Statement of Activities For the Year Ended September 30, 2004

Program Expenses

Health & Welfare	\$ 5,799,902
Total Program Expenses	5,799,902

Program Revenues

Fees and Collections	4,272,504
Federal/State Funding non MDCH	554,307
State Funding - MDCH CPBC	632,886
State Funding - MDCH non CPBC	239,536
Local Public Health Operations	332,572
Local Funds	105,626
Miscellaneous Revenues	156,575

Total Program Revenues	6,294,006
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Net Program Revenues	494,104
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General Revenue

County Appropriations	48,347
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Change in Net Assets	542,451
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Net Assets

Beginning of Year	1,104,080
End of Year	\$ 1,646,531

The notes to financial statements are an integral part of this statement.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Balance Sheet
September 30, 2004

ASSETS

Assets:

Cash and Equivalents - Unrestricted	\$ 933,215
Accounts Receivable (net)	732,680
Due From Other Governmental Units	412,416
Prepaid Expenditures	<u>51,442</u>
Total Assets	<u><u>\$ 2,129,753</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts Payable	\$ 192,505
Accrued Liabilities	208,728
ACH Payable	62,822
Other Liabilities	31,897
Deferred Revenues	<u>270,676</u>
Total Liabilities	<u>766,628</u>

Fund Equity:

Fund Balance	
Unreserved	
Undesignated	<u>1,363,125</u>
Total Fund Equity	<u>1,363,125</u>

Total Liabilities and Fund Equity	<u><u>\$ 2,129,753</u></u>
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The notes to financial statements are an integral part of this statement.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2004

Total Governmental Fund Balance	\$ 1,363,125
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	138,028
Under modified accrual, revenue is recognized when amounts are available and measurable in the current period, however under full accrual revenues for services are recognized when earned.	380,168
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	
Compensated Absences	(222,596)
Leases	(12,194)
Net Assets of Governmental Activites	<u>\$ 1,646,531</u>

The notes to financial statements are an integral part of this statement.

Luce-Mackinac-Alger-Schoolcraft District Health Department**Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended September 30, 2004**

	General Operating Fund
Revenues:	
Fees and Collections	\$ 3,892,336
Federal/State Funding non MDCH	554,307
State Funding - MDCH CPBC	632,886
State Funding - MDCH non CPBC	239,536
Local Public Health Operations	332,572
Local Funds	105,626
Miscellaneous Revenues	156,575
Total Revenues	5,913,838
Expenditures:	
Health & Welfare	5,728,369
Capital Outlay	39,346
Total Expenditures	5,767,715
Excess Revenue (Expenditures) before Other Financing Sources	146,123
Other Financing Sources:	
Appropriations:	
Luce	10,000
Mackinac	18,000
Alger	9,000
Schoolcraft	11,347
Total Other Financing Sources	48,347
Excess Revenues and Other Financing Sources Over Expenditures	194,470
Fund Balance - October 1, 2003	1,168,655
Fund Balance - September 30, 2004	\$ 1,363,125

The notes to financial statements are an integral part of this statement.

Luce-Mackinac-Alger-Schoolcraft District Health Department

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2004

Net Change in Fund Balance - Total Governmental Funds	\$ 194,470
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Amount reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$47,871) exceeded capital outlay (\$39,346) in the current period.	(8,525)
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Compensated Absences recognized as an expense.	(16,969)
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Deferred Revenues recognized as earned income.	264,331
------------------------------------------------	---------

Cost Settlement Receivable recognized as earned income.	115,837
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Governmental funds report lease proceeds as other financing sources and principal payments as expenditures. This is the amount of principal payments during fiscal 2004.	<u>(6,693)</u>
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Net Assets of Governmental Activities	<u><u>\$ 542,451</u></u>
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Notes to Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES:

The accounting polices of the Luce-Mackinac-Alger-Schoolcraft District Health Department, (LMAS) conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the LMAS District Health Department’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the LMAS District Health Department’s activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The Luce-Mackinac-Alger-Schoolcraft District Health Department is a Blended Component Unit of the County of Luce, Michigan, the purpose of which is to provide limited health services to the residents of Luce County. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise the fund’s assets, liabilities, fund equity, revenues and expenditures. Each County appoints two members, which are Commissioners, to the Board of Health.

2. Basis of Presentation – Government-Wide Financial Statements – The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange are recognized in accordance with Governmental Accounting Standards Board Statement 33.

The statement of net assets and the statement of activities display information about the LMAS District Health Department as a whole. The statements include all funds of the Department.

The Statement of Activities presents a comparison between direct program expenses and program revenues of the LMAS District Health Department. Program expenses are those that are specifically associated with a program or function. Program revenues include (a) fees and charges for services and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including investment earnings, are presented as general revenues.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)

Capital assets are reported in the government-wide statements at historical cost. Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery and equipment, infrastructure and all other tangible or intangible assets that are used in operations and have initial useful lives beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets.

Capital assets that are depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the asset. Assets are depreciated on an individual basis for equipment and buildings.

The government-wide focus is more on the sustainability of the LMAS District Health Department as an entity and the change in the LMAS District Health Department's net assets resulting from the current year's activities.

3. Basic Financial Statements – Fund Financial Statements – The financial transactions of the LMAS District Health Department are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the LMAS District Health Department:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the LMAS District Health Department.

The General fund is the general operating fund of the LMAS District Health Department. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)

The emphasis in fund financial statements is on the major funds of the governmental activities categories. Nonmajor funds by category are summarized into a single column. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category of the governmental and enterprise combined) for the determination of major funds. The LMAS District Health Department selected the General Fund as a Major Fund.

4. Measurement Focus and Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building improvements	15-20 years
Furniture and equipment	5-10 years

Compensated Absences

The LMAS District Health Department accrues vested or accumulated sick and vacation leave when earned by the employee.

Full Accrual Accounting Method

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The LMAS District Health Department reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the LMAS District Health Department before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Cash and Investments

Investments are reported at fair value, based on quoted market prices. All deposits are carried at cost. Cash and equivalents are considered to be cash on hand, demand deposit, and short-term investments with maturities of three months or less.

Prepaid Items

Payments made to vendors for insurance and rent that will benefit future periods are recorded as prepaid items. All other payments made to vendors for services that will benefit future periods are recorded as expenditures. These payments do not have a material affect on the financial statements.

Annual Budget

The LMAS District Health Department adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them is stated on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH:

The balance sheet accounts and types of cash items are presented below:

Cash and equivalents - unrestricted	\$	933,215	Petty cash	\$	440
			Demand deposits -		
			savings and checking		932,775
TOTALS	\$	<u>933,215</u>		\$	<u>933,215</u>

With respect to the demand deposits, \$916,681 of the \$932,775 listed above is held with the County Treasurer and pooled with the cash of several other funds. The remaining \$16,094 of demand deposits have a bank balance of \$35,994 which is insured by the Federal Deposit Insurance Corporation (FDIC) under regulation 330.8.

NOTE C - INVESTMENTS:Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the Luce-Mackinac-Alger-Schoolcraft District Health Department to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.

NOTE C - INVESTMENTS: (Continued)

- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The District Health Department deposits are in accordance with Statutory Authority.

NOTE D - DEFINED BENEFIT PENSION PLAN:

Plan Description - The LMAS District Health Department contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (msa 5.333 (A); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

All full-time employees of the LMAS District Health Department are eligible to participate in the System. Benefits vest after six years of service. LMAS employees listed after February 1997 who retire at or after age 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 1.7 percent times the member's 5 year final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and County ordinance.

NOTE D - DEFINED BENEFIT PENSION PLAN: (Continued)

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an active employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the District Health Department's personnel policy, which requires employees to contribute -0- percent to the plan. The District Health Department is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2003 is as follows:

General	-0-%
Employee 2/97	-0-%

Annual Pension Cost – During the year ended September 30, 2004, the District Health Department's contributions totaling \$43,144 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Luce-Mackinac-Alger-Schoolcraft District Health Department**Notes to Financial Statements
September 30, 2004****NOTE D - DEFINED BENEFIT PENSION PLAN: (Continued)**

Three year trend information as of December 31, 2003 is as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial Value of Assets	\$ 5,760,453	\$ 5,822,029	\$ 6,113,081
Actuarial Accrued Liability	5,120,238	5,535,184	5,823,673
Unfunded AAL	(640,215)	(286,845)	(289,408)
Funded Ratio	113%	105%	105%
Covered Payroll	2,826,191	2,610,491	2,344,678
UAAL as a Percentage of Covered Payroll	0%	0%	0%

NOTE E - CAPITAL ASSETS:

A summary of capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Adjustments /Decreases</u>	<u>Ending Balance</u>
Assets being depreciated:				
Furniture & equipment	\$ 964,496	\$ 14,138	\$ (711,869)	\$ 266,765
Building improvements	<u>113,600</u>	<u>25,208</u>	<u>-</u>	<u>138,808</u>
Subtotal	<u>1,078,096</u>	<u>39,346</u>	<u>(711,869)</u>	<u>405,573</u>
Accumulated depreciation:				
Furniture & equipment	183,642	39,277	-	222,919
Building improvements	<u>36,032</u>	<u>8,594</u>	<u>-</u>	<u>44,626</u>
Subtotal	<u>219,674</u>	<u>47,871</u>	<u>-</u>	<u>267,545</u>
Net Capital Assets Being Depreciated	<u>\$ 858,422</u>	<u>\$ (8,525)</u>	<u>\$ (711,869)</u>	<u>\$ 138,028</u>

Depreciation Expense:
Health and Welfare \$ 47,871

Luce-Mackinac-Alger-Schoolcraft District Health Department**Notes to Financial Statements
September 30, 2004****NOTE F - ACCOUNTS RECEIVABLE:**

The composition of the District Health Department's accounts receivable balance as reported in the financial statements are summarized as follows:

	Gross Accounts Receivable 09/30/04	Credit Allowance	Net Accounts Receivable 09/30/04
Home Health:			
Medicare PPS	\$ 488,011	\$ -	\$ 488,011
Private Pay	13,478	(121)	13,357
Medicaid	5,007	(2,838)	2,169
Blue Cross/Blue Shield	41,754	-	41,754
Hospice	21,789	-	21,789
Other	<u>39,260</u>	<u>-</u>	<u>39,260</u>
Sub-total	<u>609,299</u>	<u>(2,959)</u>	<u>606,340</u>
Environmental Health	5,370	(376)	4,994
Personal & Family Health	118,839	(2,299)	116,540
Substance Abuse	<u>4,806</u>	<u>-</u>	<u>4,806</u>
TOTALS	<u>\$ 738,314</u>	<u>\$ (5,634)</u>	<u>\$ 732,680</u>

NOTE G - COMMITMENTS AND CONTINGENCIES:

The District Health Department has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District Health Department. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the District Health Department at September 30, 2004.

Medicare - District Health services rendered to Medicare program beneficiaries are charged at prospectively determined rates per visit. Certain district health services are paid based on a cost reimbursement methodology. The District Health Department reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary. The District Health Department's classification of clients under the Medicare program and the appropriateness of their admission and visits are subject to a review by Medicare.

NOTE G - COMMITMENTS AND CONTINGENCIES: (Continued)

Medicaid - District Health services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per visit. The District Health Department reports such activity through the submission of its annual cost reports which are subject to audit by the Medicaid fiscal intermediary. The District Health Department's classification of clients under the Medicaid program and the appropriateness of their admission and visits are subject to a review by Medicare.

Risk Management - The District Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District Health Department was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The LMAS District Health Department joined together with other governmental entities and created a public entity risk pool currently operating as a common risk management and insurance program. The District Health Department pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance.

The LMAS District Health Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District Health Department is unable to provide an estimate of the amounts of additional assessments.

NOTE H - COMPENSATED ABSENCES:

The District Health Department has an accrued liability for accumulated vested vacation benefits payable and a contingent liability for accumulated sick leave benefits of its employees. As of September 30, 2004, the accumulated vacation and sick leave benefits were as follows:

	Account Balance 10/01/03	Additions	Deletions	Account Balance 09/30/04
Vacation	\$ 131,193	\$ 6,196	\$ -	\$ 137,389
Sick	74,434	10,773	-	85,207
TOTAL	\$ 205,627	\$ 16,969	\$ -	\$ 222,596

Luce-Mackinac-Alger-Schoolcraft District Health Department

**Notes to Financial Statements
September 30, 2004**

NOTE H - COMPENSATED ABSENCES: (Continued)

Vacation and Sick Leave Policy - Vacations are earned in varying amounts depending on the number of years of service and may be accumulated up to a maximum of 30 days.

Sick leave is paid at fifty percent of the employee's unused sick leave, up to a maximum of 480 hours, upon retirement, separation, or death after ten years of service. Payment shall be made at the employee's current rate of pay.

NOTE I - LEASE COMMITMENTS:

The District Health Department currently leases space for four units under signed, noncancelable, lease agreements.

Future annual obligations of the four leases are summarized below:

Year	Premises			
	St. Ignace Mackinac County	Newberry Luce County	Alger County	Manistique Schoolcraft County
2005	28,200	70,248	85,392	52,149
2006	28,200	70,248	85,392	52,149
2007	28,200	70,248	85,392	13,037
2008	28,200	70,248	85,392	-
2009	28,200	70,248	85,392	-
2010	28,200	70,248	85,392	-
2011-2015	25,850	46,832	426,960	-
	This lease ends Aug. 2011	This lease ends May 2011	This lease ends Sept. 2015	This lease ends Dec. 2007

The District Health Department has capital lease commitments for a CMHC Computer System and four Konica copiers. The following presents a summary of the capital lease commitments as of September 30, 2004:

	Present Value Of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Konica copier leases payable in monthly installments of \$646 including interest through June 2006.	\$ 12,194	\$ 1,372	\$ 13,566

NOTE J - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The federal expenditures of the Department are included with the schedule of expenditures of federal awards of Luce County, Michigan.

NOTE K - CHANGE IN ACCOUNTING PRINCIPLE:

Effective October 1, 2003, the Health Department implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management's Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

Required Supplementary Information

Luce-Mackinac-Alger-Schoolcraft District Health Department

Budgetary Comparison Schedule General Fund For the Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Budgetary fund balance, October 1, 2003	\$ 1,168,655	\$ 1,168,655	\$ 1,168,655	\$ -
Resources (inflows):				
Fees and Collections	3,937,341	3,845,450	\$ 3,892,336	46,886
Federal/State Funding non MDCH	700,829	504,465	554,307	49,842
State Funding - MDCH CPBC	583,442	629,225	632,886	3,661
State Funding - MDCH non CPBC	225,000	243,500	239,536	(3,964)
Local Public Health Operations	264,603	332,583	332,572	(11)
Local Funds	70,500	102,868	105,626	2,758
Miscellaneous Revenues	173,712	165,610	156,575	(9,035)
Local Appropriations	50,000	50,000	48,347	(1,653)
Amounts available for appropriation	6,005,427	5,873,701	5,962,185	88,484
Charges to appropriation (outflows):				
Salaries and Wages	3,051,637	2,868,049	2,815,785	52,264
Fringes	1,178,237	949,324	934,367	14,957
Supplies and Materials	229,799	314,316	362,221	(47,905)
Training	16,446	12,071	15,639	(3,568)
Contractual	307,950	441,829	487,248	(45,419)
Communications	116,600	146,673	148,954	(2,281)
Travel	310,714	302,828	309,475	(6,647)
Space	357,285	347,760	350,955	(3,195)
Capital Outlay	-	-	14,138	(14,138)
Miscellaneous	349,355	380,509	328,933	51,576
Total charges to appropriations	5,918,023	5,763,359	5,767,715	(4,356)
Budgetary fund balance, September 30, 2004	\$ 1,256,059	\$ 1,278,997	\$ 1,363,125	\$ 84,128

Other Supplementary Information

Luce-Mackinac-Alger-Schoolcraft District Health Department

General Fund Statement of Revenues, By Program Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Appropriations	\$ 50,000	\$ 48,347	\$ (1,653)
Administrative Overhead	140,650	129,696	(10,954)
Other Administrative Support	24,000	23,093	(907)
Cigarette Tax	16,018	16,018	-
Bioterrorism	267,092	268,254	1,162
Radon Testing	5,600	5,600	-
Public/Spa Pools	7,985	6,885	(1,100)
Food Protection	235,699	234,147	(1,552)
Onsite Sewage	203,523	215,854	12,331
Private Groundwater	155,064	156,063	999
Type II Groundwater	51,255	53,941	2,686
Erosion Control	15,000	15,709	709
Other Environmental Health	-	8,393	8,393
Gen Comm Diseases	50,255	47,861	(2,394)
Immunization Clinics	165,528	165,617	89
Immunization Action Plan	11,279	11,259	(20)
Sexually Trans Diseases	6,350	8,670	2,320
AIDS Prevention	5,000	5,000	-
Family Planning Services	140,092	173,906	33,814
MCH Child Health	26,213	26,213	-
Maternal Support Services	139,286	150,806	11,520
Infant Support Services	149,746	146,770	(2,976)
Childrens Special Health Care	17,988	19,174	1,186
Part H & At Risk Programs	44,180	42,761	(1,419)
Hearing Screening	15,919	11,884	(4,035)
Vision Screening	10,323	7,503	(2,820)
Breast/Cervical Cancer Program	84,800	90,149	5,349
WIC Food Coupon Program	127,335	127,626	291
EPSDT Screening	185,746	208,588	22,842
General Nursing Program	-	50	50
Community Projects	-	1,400	1,400
Tobacco Prevention	24,000	25,200	1,200
SIG Grant	27,000	27,000	-
Certified Home Health Services	2,592,850	2,658,610	65,760
Noncertified Home Health Services	81,650	86,294	4,644
Hospice Services	226,500	189,515	(36,985)
Addiction Treatment Services	151,600	158,648	7,048
Addiction Prevention Services	148,175	147,842	(333)
Corrections Programs	270,000	241,839	(28,161)
TOTAL REVENUES	<u>\$ 5,873,701</u>	<u>\$ 5,962,185</u>	<u>\$ 88,484</u>

Luce-Mackinac-Alger-Schoolcraft District Health Department

General Fund Statement of Expenditures, By Program Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Administrative Overhead	\$ 140,650	\$ 129,696	\$ 10,954
Other Administrative Overhead	24,000	21,462	2,538
Community Health & Safety Assessment	-	26	(26)
Bioterrorism	267,092	274,110	(7,018)
Radon Testing	5,600	5,616	(16)
Public/Spa Pools	7,985	6,018	1,967
Food Protection	235,699	235,152	547
Onsite Sewage	203,523	215,920	(12,397)
Private Groundwater	155,064	158,364	(3,300)
Type II Groundwater	62,157	54,022	8,135
Erosion Control	17,412	10,612	6,800
Other Environmental Health	-	16,581	(16,581)
Gen Comm Disease	50,255	47,886	2,369
Immunization Clinics	183,792	166,396	17,396
Immunization Action Plan	11,279	11,783	(504)
Sexually Trans Diseases	6,350	8,671	(2,321)
AIDS Prevention	5,000	5,266	(266)
Mat/Infant Health Advocacy	-	(13)	13
Family Planning Services	181,823	185,680	(3,857)
MCH Child Health	26,213	26,573	(360)
Maternal Support Services	181,307	165,114	16,193
Infant Support Services	169,129	143,272	25,857
Childrens Special Health Care	17,988	19,498	(1,510)
Part H & At Risk Programs	44,410	45,169	(759)
Hearing Screening	15,919	12,515	3,404
Vision Screening	10,323	8,134	2,189
Breast/Cervical Cancer Program	86,843	101,632	(14,789)
WIC Food Coupon Program	132,937	146,394	(13,457)
EPSDT Screening	185,746	179,130	6,616
Medicaid Outreach	-	430	(430)
General Nursing Programs	-	104	(104)
Cardiovascular Dis Prevention	-	(13)	13
Community Projects	-	1,406	(1,406)
Tobacco Reduction	24,000	25,550	(1,550)
SIG Grant	27,000	27,031	(31)
Certified Home Health Services	2,420,235	2,453,874	(33,639)
Noncertified Home Health	88,635	105,352	(16,717)
Hospice Services	177,293	164,112	13,181
Addiction Treatment Services	220,787	233,286	(12,499)
Addiction Prevention Services	147,821	151,304	(3,483)
Corrections Program	229,092	204,600	24,492
			-
TOTAL EXPENDITURES	\$ 5,763,359	\$ 5,767,715	\$ (4,356)

Luce-Mackinac-Alger-Schoolcraft District Health Department

Health Department Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and Collections	891,175	904,026	12,851
Federal/State Funding non MDCH	234,465	303,169	68,704
State Funding - MDCH CPBC	605,225	632,886	27,661
Local Public Health Operations	332,583	332,572	(11)
Local Funds	10,950	14,652	3,702
Miscellaneous Revenues	46,860	46,579	(281)
Total Revenues	2,121,258	2,233,884	112,626
EXPENDITURES:			
Health and Welfare:			
Salaries and wages	999,979	974,455	25,524
Fringe benefits	330,993	331,489	(496)
Supplies	76,029	110,822	(34,793)
Training	2,975	4,513	(1,538)
Contractual	130,868	151,773	(20,905)
Communications	68,048	70,065	(2,017)
Travel	90,364	93,290	(2,926)
Space costs	2,760	2,766	(6)
Capital Outlay	-	14,138	(14,138)
Administrative overhead costs	492,996	477,078	15,918
Other	68,836	45,203	23,633
Total Expenditures	2,263,848	2,275,592	(11,744)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (142,590)	(41,708)	\$ 100,882
Required Departmental Transfers:			
Local MOE Required by MDCH		51,347	
Additional Local Funds Expended		(9,639)	
Total Transfers		41,708	
Net Operations After Transfers		\$ -	

Luce-Mackinac-Alger-Schoolcraft District Health Department**Home Health Programs
Statement of Revenues and Expenditures
Budget and Actual
For the Year Ended September 30, 2004**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 2,898,000	\$ 2,930,769	\$ 32,769
Local Funds	3,000	3,650	650
Total Revenues	2,901,000	2,934,419	33,419
EXPENDITURES:			
Health and Welfare:			
Salaries and wages	1,161,067	1,156,146	4,921
Fringe benefits	384,313	392,466	(8,153)
Supplies	81,080	78,032	3,048
Training	5,475	4,878	597
Contractual	171,060	202,207	(31,147)
Communications	51,290	52,356	(1,066)
Travel	155,065	158,060	(2,995)
Space costs	26,250	26,865	(615)
Administrative overhead costs	572,412	565,726	6,686
Other	78,150	86,601	(8,451)
Total Expenditures	2,686,162	2,723,337	(37,175)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 214,838</u>	211,082	<u>\$ (3,756)</u>
Fund Balance - October 1, 2003		788,790	
Fund Balance - September 30, 2004		<u>\$ 999,872</u>	

Luce-Mackinac-Alger-Schoolcraft District Health Department

Community Health Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 56,275	\$ 57,384	\$ 1,109
Federal/State Funding non MDCH	270,000	251,139	(18,861)
State Funding - MDCH CPBC	24,000	-	(24,000)
State Funding - MDCH non CPBC	243,500	239,536	(3,964)
Local funds	-	1,670	1,670
Miscellaneous Revenues	27,000	27,000	-
Total Revenues	620,775	576,729	(44,046)
EXPENDITURES:			
Salaries and wages	312,149	306,583	5,566
Fringe benefits	103,321	89,370	13,951
Supplies and materials	13,840	17,308	(3,468)
Training	2,491	2,135	356
Communications	9,230	8,103	1,127
Travel	40,650	41,239	(589)
Other	13,127	8,240	4,887
Overhead	153,891	144,650	9,241
Total Expenditures	648,699	617,628	31,071
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (27,924)	(40,899)	\$ (12,975)
Required Departmental Transfers:			
Additional Local Funds Expended		40,899	
Net Operations After Transfers		\$ -	

Luce-Mackinac-Alger-Schoolcraft District Health Department

Administration Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Fees and Collections	\$ -	\$ 156	\$ 156
Local Funds	88,918	85,654	(3,264)
Miscellaneous Revenues	91,750	82,996	(8,754)
Total Revenues	180,668	168,806	(11,862)
Expenditures:			
Salaries and wages	394,854	378,601	16,253
Fringe benefits	130,696	121,042	9,654
Supplies and materials	143,367	156,060	(12,693)
Training	1,130	4,113	(2,983)
Contractual	139,900	133,267	6,633
Communications	18,105	18,429	(324)
Travel	16,750	16,887	(137)
Space	318,750	321,324	(2,574)
Other	220,397	188,889	31,508
Overhead	(1,219,299)	(1,187,454)	(31,845)
Total Expenditures	164,650	151,158	13,492
EXCESS REVENUES OVER (UNDER) EXPENDITURES	16,018	17,648	1,630
Other Financing Sources:			
Appropriations:			
Luce	10,000	10,000	-
Mackinac	18,000	18,000	-
Alger	12,000	9,000	(3,000)
Schoolcraft	10,000	11,347	1,347
Total Other Financing Sources	50,000	48,347	(1,653)
Excess Revenues and Other Financing Sources Over Expenditures	\$ 66,018	65,995	\$ (23)
Required Departmental Transfers:			
Local MOE Required by MDCH		(51,347)	
Additional Local Funds Expended		(31,260)	
Total Transfers		(82,607)	
Net Operations After Transfers		(16,612)	
Fund Balance - October 1, 2003		379,865	
Fund Balance - September 30, 2004		\$ 363,253	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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SUE A. BOWLBY, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Health
Luce-Mackinac-Alger-Schoolcraft District Health Department
Newberry, MI 49868

We have audited the financial statements of the governmental activities and major fund of the Luce-Mackinac-Alger-Schoolcraft District Health Department (a component unit of Luce County), as of and for the year ended September 30, 2004, which collectively comprise the Luce-Mackinac-Alger-Schoolcraft District Health Department's basic financial statements and have issued our report thereon, dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce-Mackinac-Alger-Schoolcraft District Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce-Mackinac-Alger-Schoolcraft District Health Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Conclusion

This report is intended solely for the information and use of the Board of Health and management, and federal awarding agencies, pass-through entities and others within the organization. It is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2004



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN**

REPORT TO MANAGEMENT

Members of the Board of
Luce, Mackinac, Alger, Schoolcraft
District Health Department
Newberry, MI 49868

We have audited the financial statements of the Luce-Mackinac-Alger-Schoolcraft District Health Department (LMAS) for the year ended September 30, 2004, and have issued our reports thereon dated December 17, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit we considered the internal control of the LMAS District Health Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of LMAS District Health Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the LMAS District Health Department are described in Note A. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2004. We noted no transactions entered into by the LMAS District Health Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. The Health Department did implement the provisions of GASB Statement 34 on October 1, 2003.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the allowance for uncollectible accounts receivable is an estimate. It is based on specific historical collection results and analysis of aged accounts. Cost settlements are also estimates based on preliminary cost report calculations. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the LMAS District Health Department's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the LMAS District Health Department, either individually or in the aggregate, indicate matters that could have a significant effect on the LMAS District Health Department's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the LMAS District Health Department's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the LMAS District Health Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and recommendations

Payroll

It was noted during payroll testing, that the check numbers that are used for the automatic deposit checks are duplicated for physical payroll checks at a future date. It is recommended that payroll check numbers only be used once, regardless of whether a physical payroll check is printed.

It was also noted that one employee's file did not contain an authorization for a payroll deduction of deferred compensation. One employee's Form I-9 was not completed. It lacked the employee's date of birth and social security number in section 1. Another employee's I-9 was not signed by a representative of the LMAS District Health Department. It is recommended that all payroll deductions be authorized by the employee and such authorization should be retained by the payroll clerk. All Form I-9's should be completed in their entirety and signed by an authorized representative.

Bank Deposits

It was noted during a review of bank activity, that two ACH payments received September 30, 2004 were not recorded in the proper accounting period. This caused cash to be understated in the general ledger. These two amounts were also listed as accounts receivable at September 30, 2004. This caused accounts receivable to be overstated in the general ledger. Even though these amounts net to zero on the asset section of the balance sheet, it is recommended all ACH payments be recorded in the actual month and year of receipt.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the information and use of management, the Board of Health, federal and state awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson, Tackman & Co., PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 17, 2004